

The EU response to the pandemic

Despite the protestations of pro EU contributors that I should not be writing about the EU now we have left, I note that my recent post on the German Court and the Euro got a much bigger response than many other items I write about. I remain interested in our neighbours and wish them well. Today I need to consider the scale and nature of their possible response to the economic damage of the pandemic on the continent.

The Franco-German deal to propose raising Euro 500bn on the strength of the EU's total budget and to pass it on to member states to help with Covid 19 recovery has now been transposed into a Commission proposal. They recommend Euro 750 bn, two thirds for grants and one third for loans to member states to help them recover. As in the original idea the EU as a whole will borrow the money against the security of its budget. It will fall due for repayment sometime between 2028 and 2058.

In a new twist the Commission states that it will need to raise the overall level of EU taxation on member states and their citizens from 1.2% of GNI (total national incomes) to 2%, a tax hike of 66.6%. The tax rises will take the form of new emissions taxes, carbon border taxes, digital taxes and the like, to be determined in the future. Each of these taxes will need negotiation and legislation. The disbursement of the Euro 750 bn will take place over an unspecified period within the next seven year budget cycle.

The EU seven year budget from next year will of course have to deal with the loss of 15% of its income with the departure of the UK, and a further drop from the decline in the EU economy being experienced this year. If we put this at a modest 5% decline only, that means they are short of one fifth of the budget next year. The proposed rise in tax would therefore only deliver a 33% increase in revenues in the first year, even if all the new taxes were in place as early as that.

The document is silent over how the Euro 750 bn will be divided between countries. The largest heading for spending will be a Recovery and resilience facility, with rules to be designed. There are smaller sums to promote the existing budget agenda of support and subsidy for the green deal and for digitalisation.

This package will need unanimous support as it is a matter relating to the 7 year budget settlement. Each country will be able to pick away at the tax proposals to finance it, and at the distributional issues which are unclear over payments. If it is to be a first essay in solidarity, bringing German and Dutch taxpayers to assist Italian and Spanish businesses and people, it will need to find ways to route more money proportionately to these latter countries under the various headings of the funds and programmes.

This does not look like a major gamechanger. Though a large headline sum of money, it will be spread out over the years ahead. The tax rises may be damaging, and imply a more inward looking and protectionist EU as they find

ways to tax foreign digital success stories and overseas produced goods on grounds of their carbon content. It is good the U.K. should be free of the anti business and anti trade taxes about to be planned.